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Dear Regulator

Re: Corporate Emissions Reduction Transparency Report

The Australian Aluminium Council (the Council) welcomes the opportunity to provide feedback to the Consultation Paper – Corporate Emissions Reduction Transparency (CERT) report (the Paper). The Council also notes the release of the Corporate Emissions Reduction Transparency Report Draft Guidelines – For Pilot (FY20-21 and CAL21) (the Guidelines), which provide useful context and additional detail for the consideration of the Council’s members.

The Council represents Australia’s bauxite mining, alumina refining, aluminium smelting and downstream processing industries. The Australian aluminium industry has been operating in Australia since 1955, and over the decades has been a significant contributor to the Australian economy. Alongside many decades of economic contribution, the industry is globally comparatively young and well maintained. The industry includes five large (>10 Mt per annum) bauxite mines plus several smaller producers which collectively produce over 100 Mt per annum making Australia the world’s largest producer of bauxite. The six alumina refineries produce around 20 Mt per annum of alumina and Australia is the world’s largest exporter of alumina. There are four aluminium smelters; in addition to downstream processing including more than 20 extrusion presses and Australia is the sixth largest global producer of aluminium. Aluminium is Australia’s highest earning manufacturing export. The industry directly employs more than 17,000 people, including 4,000 full time equivalent contractors. The industry also indirectly supports around 60,000 families in regional Australia.

The Council notes and appreciates the ongoing consultation by the Regulator on the CERT since February 2021. Council members have been involved directly in the co-design, in dedicated discussions and through open dialogue via the Australian Industry Greenhouse Network (AIGN). This co-design process has resulted in increased flexibility in reporting, which is welcomed. The Council also recognises the changes associated with Scope 2 reporting, in response to concerns raised; in particular the inclusion of the dual reporting approach with both location and market based accounting.

Australia’s aluminium, alumina and bauxite industries combined have total Scope 1 and Scope 2 emissions of just under 35Mt CO₂-e, which is around 6% of national emissions. As such, the industry has a long history of reporting under the National Greenhouse and Energy Reporting (NGER) scheme, through the relevant liable entity.

The majority of the Council’s members report under NGER. These companies are typically also those which have stated emission reduction targets and aspirations, however, these are usually set at a multinational level; which does not align with Australian NGER data at the controlling corporation level. The Council also

has an increasing number of smaller entities, which are not required to report under NGER; and are therefore not eligible to report under CERT; but these entities typically are those which would be setting emissions aspirations only within Australia. Opportunity for these non-NGER facilities to participate in CERT in the future would be welcome.

The Council has feedback on a number of the key design elements; which will be of central consideration to its members as they consider their potential to participate in the Pilot program.

Commitments

While there has been increased flexibility in CERT; including addressing some aspects of selected Scope, equity versus operational control and timing issues; the continued alignment with NGER makes it challenging to align particularly for multinational corporations.

The majority of the Council's members, and all the facilities within the vertically integrated aluminium industry, have emissions reduction commitments. However, these are all set at a multinational, and sometimes multi commodity level. While members have articulated actions which will be undertaken to achieve these commitments; these are not necessarily directly applicable to or translatable to an Australian NGER reporting equivalent level, resulting in misalignment. For example:

- Corporate emissions targets typically do not have the same reporting inclusions and exclusions as NGER, such as emissions from land clearance and rehabilitation. These are significant at a bauxite mine and can be included in corporate emissions targets but are not a covered emission in NGER; and
- While the Council appreciates the additional flexibility to have data on a calendar year and the move to equity accounting where appropriate, if the corporate emissions target has a different reporting boundary and different covered emissions, then the progress towards targets against NGER reported data is not meaningful.

Additionally, in the CERT Company view, the Council has two concerns:

1. The percentage completion towards a short term target is likely to be much higher than the percentage completion of a longer term commitment, which can be misleading in terms of the relative importance and balance of these ambitions; and
2. How multinational targets appear in this view, may end up appearing as lesser targets, downgrading their apparent relevance.

Use of LGCs

The Council notes that only Large-scale generation certificates (LGCs) voluntarily surrendered for the purpose of reducing the emissions intensity of electricity consumed by the company are eligible for the CERT report. However, the existence of a power purchase agreement for renewable electricity will not be accepted in lieu of voluntarily surrendered LGCs. The Council is concerned that some power purchase agreements, signed with renewable generators, may not meet these specific requirements.

ACCUs Generated Under ERF

The Council outlined its concerns about the treatment of Australian carbon credit units (ACCUs) are issued for an Emissions Reduction Fund (ERF) project in our March 2021 submission. The Council is concerned that this has not been adequately addressed.

While there is a new exclusion in the draft for ERF projects that don't impact the emissions like land methods, the treatment of ACCUs is still flawed when it comes to reporting of safeguard facilities and the methodology for double counting doesn't align with common practice corporate reporting.

Under the NGER methodology, if a facility with an ERF project chooses to hold on to their ACCUs and not surrender during the reporting period they are penalised since the eligible units need to be voluntarily cancelled or deemed surrenders under a contract to draw down the net emissions number.

For example, Refinery A has an emissions baseline of 2,100,000 t CO₂-e:

- Scenario 1: Their actual emissions are 2,000,000 t CO₂-e without doing any improvements
- Scenario 2: They completed an abatement project recognised under the ERF.
 - The abatement from Year 1 of the project is added to Year 2 actual emissions (due to the timing of ACCUs added being when received not when abatement occurred)
 - Year 2 emissions = Actual emissions 1,980,000 + ACCUs 20,000 = Reported Emissions
 - Since Refinery A is not above their safeguard baseline, there is no obligation to surrender the ACCUs.
 - So, if the site chooses to hold the ACCUs and not to surrender them OR to sell them, the reported emissions show no improvement and stay at 2,000,000 t CO₂-e.

Refinery A could voluntarily cancel ACCUs without payment (a disincentive for participating in the ERF) or to get financial value for the ACCUs they must enter into a contract with the CER (if and when auctions are available).

By contrast, under corporate accounting, the net scope 1 emissions would equal the gross scope 1 emissions. Using this hypothetical example, the site would report it would be 1,980,000 t CO₂-e (i.e., report the actual site emissions irrespective of the ACCUs).

Again, this would lead to misalignment between the completion rate shown in CERT with the companies reported performance against its commitment. A solution to this would be for all safeguard facilities which have registered projects under the ERF to report their actual emissions under CERT.

Scope 2 Emissions

While the inclusion of Scope 2 location and market based accounting methodologies (as outlined in the Guidelines) has addressed some of the concerns previously raised by the Council, there remains a number of outstanding issues.

The ongoing use of the Renewable Energy Target (RET) as a proxy for renewable generation. The RET is a specific scheme aimed at providing additional funding for additional renewable generation, over and above that which existed prior to 2001. The Renewable Power Percentage (RPP) does not recognise existing renewable generation which existed prior to 2001 (e.g., the majority of Tasmanian hydro powered generation) nor does it recognise roof top solar. The use of RPP as a proxy for “renewable energy consumed” by a facility is therefore flawed as:

- RPP does not apply to Emission Intense Trade Exposed (EITE) facilities;
- RPP does not recognise pre-existing renewables;
- RPP does not recognise self-generation;
- RPP does not recognise direct connections; and
- RPP does not recognise roof top solar STCs and their contribution.

For example, as outlined in the Paper:

- Under this approach, all non-emissions intensive trade exposed companies would automatically have their Scope 2 emissions reduced by the renewable power percentage (i.e., 18.54% for 2021); and
- A ‘residual mix factor’ is used to calculate the emissions consumed from thermal electricity generators to ensure there is no double counting.

Additionally, as raised by the Council in its submission to the Regulator in March 2021 and its submission to the Department on the Hydrogen Guarantee of Origin scheme for Australia (July 2021), there are issues with the current state based factors, which is leading to an underestimation of the percentage of renewables used:

1. *Exclusion of rooftop solar from the calculation* - To December 2020, the small-scale renewable energy capacity was 13 GW¹ in Australia and supply is estimated to continue to grow by 40% year on year. While

¹ <http://www.cleanenergyregulator.gov.au/csf/market-information/Pages/quarterly-Market-report.aspx>

small-scale renewables add complexity, they should not be ignored in their entirety, as is the case in the current calculations.

2. *Inconsistent allocation of generation facilities to different states in different data sets* - In the National Electricity Market (NEM) the physical location of generation facilities may not align with interconnectors. For example, the Australian Energy Market Operator (AEMO) allocates the Snowy Hydro Ltd, Murray 1 and 2 sites to Victoria² but under the National Greenhouse and Energy Reporting (NGER) Scheme they are included for New South Wales.
3. *Use of rolling average data*: The current method (using three years of a historical rolling average of NGER grid connected generators) creates a considerable time lag between the Scope 1 emissions from these generators and their publication. The three-year rolling average is a historic legacy which was aimed smoothing annual variations when NGER was developed to align with the former Carbon Pollution Reduction Scheme and Clean Energy Future policies.

These issues arise in respect of the NGER Measurement determination values for all State and Territory jurisdictions. The Council estimates that this variation may be up to 30% in some jurisdictions, which as very large electricity consumers of significance compared to targets.

The Council is aware that the Department is currently considering these issues; however, the timing of their consideration may mean that some Council members may not wish to participate in the CERT pilot until these issues are resolved.

Resourcing

The Council's members are currently involved in a number of pilots focussed on reporting methodologies (for example development of Production Variables for Mine Rehabilitation). The same resources within member companies are also actively involved in programmes and technology trials aimed at emission reductions, including, but not limited to:

1. Partnership with Australian Renewable Energy Agency (ARENA) on application of hydrogen in alumina refining³;
2. Partnership with ARENA on the electrification of alumina refining⁴;
3. Increased solar capacity and battery trial at Weipa⁵;
4. Assessment for the potential production of hydrogen in Gladstone⁶;
5. Project collaboration to make Central Queensland a renewable energy powerhouse⁷;
6. Participation in the Energy Transitions Initiative⁸; and
7. Collaboration within the Heavy Industry Low Carbon Technology Cooperative Research Centre (HILT CRC)⁹.

Council members therefore need to balance consideration of participation in the CERT pilot with the other ongoing commitments of these same resources.

² https://www.aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/generation_information/2021/nem-generation-information-july-2021.xlsx?la=en

³ <https://arena.gov.au/news/renewable-hydrogen-could-reduce-emissions-in-alumina-refining/>

⁴ <https://arena.gov.au/news/alcoa-to-investigate-low-emissions-alumina/>

⁵ <https://www.riotinto.com/news/releases/2021/Rio-Tinto-to-triple-Weipa-solar-capacity-and-add-battery-storage-to-help-power-operations>

⁶ <https://www.riotinto.com/news/releases/2021/Rio-Tinto-and-Sumitomo-to-assess-hydrogen-pilot-plant-at-Gladstones-Yarwun-alumina-refinery>

⁷ <https://www.riotinto.com/news/releases/Central-Queensland-leads-the-way-in-clean-energy>

⁸ <https://energytransitionsinitiative.org/>

⁹ <https://www.hiltcrc.com.au/>

Flexibility

The Council would like to continue to discuss with the Regulator ways in which the CERT can be practically adapted to increase the participation rate. Alignment and consistency between CERT and corporate reporting are difficult and complex issues to work through and a lack of alignment is likely to decrease participation. However, optionality to partially opt in only for certain facilities, certain categories of reporting or Scopes or other flexible approaches would be welcomed by Council members.

Given the importance of climate and energy policy to the sector, the Council would like to continue to work with the Regulator, on this, and other policy developments.

Yours sincerely,



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